



## AUDIT & FINANCE COMMITTEE MINUTES

December 14, 2009

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on December 14, 2009 at 4:01 p.m.

### COMMITTEE PRESENT

Scott Somers, Chairman  
Dina Higgins  
Kyle Jones  
Christopher Brady, Ex-Officio

### COMMITTEE ABSENT

None

### STAFF PRESENT

Bryan Raines  
Debbie Spinner

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2. Hear a presentation and accept the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2009.

City Controller Doug Yeskey addressed the Committee and introduced Carter Smitherman, a principal with LarsonAllen, LLP. He explained that LarsonAllen acquired Cronstrom, Osuch & Company, the Certified Public Accounting firm that Mesa previously retained to perform the audit of the City's financial statements. Mr. Yeskey stated that Mr. Smitherman performed prior audits for the City during his tenure with Cronstrom, Osuch & Company.

Mr. Yeskey advised that the above-referenced Comprehensive Annual Financial Report (CAFR), copies of which were provided to the Committee, is the City's audited financial statements for the Fiscal Year ended June 30, 2009. **(The CAFR is available for review in the City Clerk's Office and will be made part of the official minutes/attachments of the meeting.)** He thanked his staff for their dedication and hard work in completing the CAFR in a timely manner.

Mr. Smitherman also acknowledged the preparations by City staff, which facilitated a smooth and professional audit process. He directed the Committee to Page 3 of the CAFR, "Management's Discussion and Analysis" **(See Attachment 1)** and provided a brief overview of various financial highlights as follows:

- The City's total net assets decreased \$67.6 million in Fiscal Year 2009.
- Total net assets of the City are \$1.75 billion, of which \$370 million are unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. However, \$313 million of the unrestricted net assets are invested in joint ventures as of June 30, 2009.

Discussion ensued relative to the Other Post-Employment Benefit (OPEB) cost, which the City will pay out to eligible retirees in the future; that as of last year, Mesa was required, per the Governmental Accounting Standards Board (GASB), to accrue such cost as a liability and an expense on the City's financial statements; that the net OPEB obligation at the end of the fiscal year was approximately \$112 million, of which an estimated \$54 million was expensed; and that such cost would impact the City's total net assets.

Mr. Smitherman continued with his overview of the financial highlights as follows:

- As of the end of fiscal year 2009, the City's governmental funds reported a combined ending fund balance of \$196.8 million, a \$17 million increase from the previous year.
- At the end of the fiscal year, the City's unreserved fund balance for the General Fund was \$74.7 million, or 19.6% of total General Fund expenditures, compared to \$50.3 million, or 12.7% of total General Fund expenditures the previous year.
- The City issued \$61.8 million in General Obligation debt during the current fiscal year for new storm sewer and public safety improvement projects.
- The City issued \$59.9 million in taxable utility system revenue debt during the current fiscal year. These taxable bonds qualify as Build America Bonds under the American Economic Recovery and Reinvestment Act (ARRA) of 2009 and include a 35% interest rebate from the Federal government that will total \$30.8 million over the life of the bonds.

Mr. Smitherman referenced the "Independent Auditor's Report" and stated that his firm issued an unqualified opinion regarding the City's financial statements for the Fiscal Year ended June 30, 2009. **(See Attachment 2)** He advised that his firm encountered no difficulties in dealing with management in performing and completing the audit. Mr. Smitherman also stated that his firm made two recommendations to City management with regard to upgrading the City's accounting system and better managing its cash balances by the reimbursement of eligible grant expenditures on a regular basis. **(See Attachment 3)**

In response to a question from Committeemember Higgins, City Manager Christopher Brady clarified that staff has released the Request for Proposals (RFP) with regard to the City's Financial System Replacement Project (CityEdge). He stated that staff's biggest challenge is not the desire to upgrade the system, but determining how it would be funded. Mr. Brady added that the new system would provide opportunities for greater efficiency, especially with regard to various payroll functions.

Deputy City Manager Bryan Raines expressed appreciation to the audit firm and City staff for their hard work and professionalism throughout this process.

Chairman Somers stated that he looks forward to the implementation of CityEdge, which will bring Mesa's financial system into the 21<sup>st</sup> century.

It was moved by Committeemember Jones, seconded by Committeemember Higgins, to recommend to the Council that the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2009, be accepted.

Carried unanimously.

3. Hear a presentation, discuss and provide direction on the following audits:

a. Adults Sports Program

Interim City Auditor Jennifer Ruttman reported that the audit of the Adult Sports Program was conducted not as a follow-up review to the prior Adult Softball Program audit, but because it stemmed from similar internal control concerns.

Ms. Ruttman explained that the auditor's first finding was that the Parks, Recreation and Commercial Facilities (PRCF) Department seek clarification from the current City Council regarding its cost recovery expectations for the Adult Sports Program. She stated that the auditor verified that the program is currently recovering its direct costs, but noted that in order to achieve full cost recovery, it would most likely be necessary to increase registration fees to levels that are above the current market.

Ms. Ruttman introduced Senior Internal Auditor Jason Taylor, who conducted the Adult Sports Program and the Petty Cash/Change Fund audits. (Items 3a and 3b)

In response to a question from Chairman Somers, Mr. Taylor clarified that the indirect costs include field maintenance, which consists of mowing, fertilization, rest room cleaning and trash pickup. He said that such costs would be incurred regardless of whether adult sports teams are using the fields or not.

City Manager Christopher Brady noted that the question for the Committee to consider is whether the field maintenance costs should be allocated to the Adult Sports Program. He explained that a prior City Council directed staff to work towards achieving 100% cost recovery of the Adult Sports Program so that such costs would not be subsidized by the General Fund. Mr. Brady said that staff addressed costs such as registration and contracted sports officials, but not field maintenance.

Ms. Ruttman assured the Committee that the PRCF Department made a concerted effort to capture all of the costs associated with the Adult Sports Program as directed by the previous Council. She stated that the auditor noted minor accounting issues with regard to staff's ability to "pick up" and track certain indirect costs, but said that the failure to capture those costs was not done intentionally.

In response to a question from Committeemember Jones, Ms. Ruttman stated that lighting/electricity usage is one of the direct costs that the Adult Sports Program is recovering.

Committeemember Jones noted that as a member of the previous Council that directed staff to recover as many of the costs as possible for the Adult Sports Program, it was his intention that such costs be more administrative in nature (i.e., officiating, management, and lighting) as opposed to field maintenance.

Ms. Ruttman confirmed that the Adult Sports Program is currently recovering the costs mentioned by Committeemember Jones.

Discussion ensued relative to the fact that the fees associated with the Adult Sports Program have been raised in the past few years, resulting in Mesa being at the higher limit of the market; that Mesa currently has over 1,000 softball teams and 100 flag football teams participating in the Adult Sports Program; and that Mesa has a higher participation rate in such activities as compared to other Valley communities.

Deputy City Manager Bryan Raines indicated that it was staff's concern that if the Adult Sports Program attempted to achieve full cost recovery by raising its fees, individuals may choose to no longer participate in the program. He suggested that the Committee discuss this matter, as it relates to fees and charges, during the budget hearing process.

In response to a question from Chairman Somers, Mr. Raines noted that when basketball, volleyball and soccer were eliminated from the Adult Sports Program several years ago, they achieved approximately 87% cost recovery.

Committeemember Jones proposed that the PRCF Department continue to charge its current level of fees for the Adult Sports Program. He stated that if there is a need to increase the fees because of direct costs, he would support the action.

Chairman Somers inquired if Committeemember Jones was suggesting that staff seek to recover direct costs for the Adult Sports Program and Committeemember Jones said that he was.

Committeemember Higgins suggested that it might be appropriate for the PRCF Department to make a presentation to the Committee as it relates to full cost recovery of those sports (i.e., volleyball, basketball, soccer and baseball) that were eliminated from the Adult Sports Program.

Ms. Ruttman responded that it was the auditor's recommendation that the PRCF Department obtain clarification from the Council with regard to its cost recovery expectations for the Adult Sports Program.

Mr. Brady recommended that it would be best to discuss this issue in the context of the budget, at which time staff would present the fees and charges to the Committee.

Chairman Somers stated that within the context of the budget, the Committee would like to review all of the direct costs associated with the Adult Sports Program and hear a presentation regarding the sports that were eliminated from the program. He added that the Council could then determine whether it wanted to direct staff to work toward 100% cost recovery of the Adult Sports Program or a lesser amount.

Further discussion ensued relative to the auditor's second finding, which related to a key PRCF Department employee who had excessive access rights to the financial system, despite the fact that the Department had previously agreed to limit such access; and that the PRCF Department reviewed and adjusted all security levels to ensure that the level of access reflected the employee's job duties.

Chairman Somers thanked staff for the presentation.

b. Petty Cash/Change Fund

Ms. Ruttman reported that this item is a follow-up review of a 2008 Citywide audit that Mr. Taylor conducted of petty cash and change funds, at which time a few minor internal control weaknesses were identified. She explained that the recent audit noted the same weaknesses due to the fact that many of the fund custodians did not have adequate knowledge and understanding of Management Policy 203 – Petty Cash and Change Funds.

Ms. Ruttman stated that the auditor recommended that the Accounting Services Division revise the Petty Cash Custodian Transfer form in order to require custodians to acknowledge that they have read and understand Management Policy 203. She added that initially, all current custodians should be required to review the policy, sign the form and return it to Accounting Services.

Ms. Ruttman further commented that the Accounting Services Division concurred with the auditor's findings and revised the Petty Cash Custodian Transfer form as requested. She said that Accounting Services will also contact all current petty cash custodians and require them to acknowledge they have read and understand Management Policy 203.

In response to a question posed by Chairman Somers, Ms. Ruttman explained that the issue of the Auditor's Office conducting "spot checks" of petty cash custodians and the resources dedicated to such activity would be discussed when the Audit Plan is presented to the Committeemembers for their consideration.

Chairman Somers thanked everyone for the presentation.

4. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 4:38 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 14<sup>th</sup> day of December 2009. I further certify that the meeting was duly called and held and that a quorum was present.

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LINDA CROCKER, CITY CLERK